

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 L-03 EB-08 H-01 CIAE-00
INR-10 NSAE-00 SS-15 SP-02 NSC-05 /055 R

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DRAFTED BY TREASURY:XAA:MSFEINBERG:GJB
APPROVED BY STATE:L/T:AROVINE
TREASURY:XLI:HDROSENBLUM
NEA/EGY:C A KENNEDY

-----045406 151809Z /73

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FM SECSTATE WASHDC
TO AMEMBASSY CAIRO

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E.O. 11652:N/A

TAGS:EFIN

SUBJECT: INCOME TAX TREATY

1. AS EMBASSY IS AWARE, TREASURY HAS REQUESTED DELAY IN
SENATE CONSIDERATION OF TREATY PENDING TAX REFORM
DEVELOPMENTS IN BOTH COUNTRIES. NOW APPEARS UNLIKELY
THAT TAX LEGISLATION IN U.S. WILL AFFECT U.S.-EGYPT
TREATY RELATIONSHIP.

2. PRINCIPAL TREASURY PROBLEM WITH TREATY AS RELATES TO
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EGYPTIAN LAW IS PROVISION IN LAW WHICH DENIES TAX HOLIDAY
BENEFITS TO INCOME WHICH SUBJECT TO TAX IN INVESTORS HOME
COUNTRY. U.S. VIEWS THIS AS DISCRIMINATION AGAINST U.S.
BECAUSE OF FOREIGN TAX CREDIT SYSTEM, AND THEREFORE IS
RELUCTANT TO ENTER INTO TREATY WHICH SANCTIONS THIS
DISCRIMINATION. UNDER PROPOSED TREATY, WHEN EXEMPTED
PROFITS ARE REMITTED, EGYPT WILL IMPOSE TAX BECAUSE AT
THAT TIME, INCOME IS SUBJECT TO TAX IN U.S. EGYPTIAN TAX
OFFICIAL (BAROUDI) DISCUSSED THIS WITH TREASURY

INTERNATIONAL TAX COUNSEL (ROSENBLOOM) AT RECENT UNESCO MEETING. BAROUDI INDICATED THAT THIS CONDITION FOR TAX HOLIDAY (HOME COUNTRY EXEMPTION) AND IMPOSITION OF TAX AT TIME OF REMISSION DROPPED AS PART OF EGYPTIAN TAX REFORM.

3. IF ROSENBLOOM UNDERSTANDING CORRECT, AGREEMENT TO

SUBMIT TREATY TO SENATE SHOULD BE EASY TO CONCLUDE. IN ANY EVENT, TREASURY DEL WILL BE IN MID-EAST EARLY NOVEMBER. DEL PREPARED TO STOP CAIRO WEEK OCTOBER 30 OR NOVEMBER 13 TO PUT TREATY BACK ON TRACK.

4. PLEASE CONFIRM IF TAX HOLIDAY LAW CHANGED, PER PARAGRAPH 2, AND REPORT EGYPTIAN REACTION TO SUGGESTED VISIT (PARAGRAPH 3). CHRISTOPHER

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